



SENAC Brief

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Why pay attention to markets?

Emergency Needs Assessments and the Impact of Food Aid on Local Markets.

Desk review by Cynthia Donovan, Megan McGlinchy, John Staats and David Tschirley - Agricultural Economics Department, Michigan State University (59 pp) December 2005

Markets and Emergency Needs Assessments, WFP Cairo Workshop Report (32 pp) March 2006

Introduction

What is the impact of food aid on staple food markets? How do markets behave in emergencies? These are the crucial questions that emergency needs assessments (ENAs) should answer to help design appropriate responses.

As a first step, a recent study¹ commissioned by the SENAC project looks into the impact of food aid on commodity markets and identifies the basic information required to understand the dynamics between food aid and markets.

On the basis of this study and a number of pilot market profiles² completed as part of the SENAC project, WFP decided to move forward to improve its capacity to analyze staple food markets in emergencies.

Market analysis has a much broader application beyond reviewing the potential impacts of food aid on markets. It can also investigate how markets are functioning and how they can be used to help meet food security needs in crisis situations.

This brief outlines (I) the fundamentals on how food aid affects markets in emergencies and (II) how SENAC will seek to consolidate what has been learned so far to improve emergency needs assessments, and potentially the design of programme responses.

Assessing potential negative effects of food aid

Price effects: Empirical evidence indicates that under specific conditions food aid can lead to

substantial price declines. This may benefit poor households in their consumption, but it can also have negative effects on the incomes of producers and traders.

Price effects depend on several factors: the quantity of food aid, how well it is targeted in time and to vulnerable groups, and the existing market conditions for the food aid commodity and its substitutes. Price effects also depend upon how willing consumers are to substitute between the food aid commodity and locally produced food.

A key concept is market integration i.e. the extent of linkage between markets. If an emergency occurs and markets are not integrated, food aid supplies may be needed because food prices are too high for many of the poor and new supplies may not arrive through markets. With integrated markets, prices can be dampened by supplies entering from other markets. However, large food aid quantities may mean that prices for farmers' production are low in many markets, a potential negative 'spill-over' effect from food aid.

Production effects: If food aid reduces the price of locally-produced goods, it may discourage future local production, as well as storage and trade. However, this depends on *how low* prices fall and *when* food aid is delivered. Food aid distributed during or just after a harvest is more likely to discourage future production.

Longer-term impacts: Apart from providing humanitarian relief to meet immediate needs, food aid is often critical in helping vulnerable people to avoid selling their productive assets and to undertake more productive investments.

Shocks: The type of shock is important, because diverse shocks may affect markets differently. For

¹ Funded by ECHO.

² Market profiles were conducted in nine countries. Two market emergency assessments and two market food procurement analyses were also conducted. See <http://www.wfp.org/ODAN> for details.

The Strengthening Emergency Needs Assessment Capacity (SENAC) project is a central element of a three year effort funded by donors to improve WFP's capacity to assess food needs through accurate and impartial assessments.

example, droughts reduce market activities; they generally do not affect transport and market infrastructure, so markets can be involved in and will be affected by the response. Earthquakes may destroy the infrastructure, so that markets are unable to respond in the short term and food aid is needed.

Conclusions from existing research: Overall, sound empirical studies are few in number and demonstrate limited disincentive and other negative effects of food aid on markets. The balance of positive and negative effects depends more on how food aid is programmed and delivered (timing and targeting) than on the quality of the ENA. Market assessments can help identify the indicators to monitor.

Making full use of market analysis

The desk review suggests various actions to integrate market aspects into needs assessments to determine not only the effects of food aid on markets but also how markets contribute to addressing food insecurity during a crisis. This was the topic of a workshop held in March 2006 in Cairo where WFP, partner and donor staff discussed how to consolidate market analysis and use it effectively in needs assessments. On the basis of the conclusions of the desk review and the discussions in Cairo, the following actions were agreed:

- To incorporate market information into Emergency Food Security Assessments (EFSAs), Comprehensive Food Security and Vulnerability Analyses (CFSVAs) and Food Security Monitoring Systems (FSMS). This is essential to determine whether markets can be used to reduce a crisis, identify appropriate responses, predict the potential negative impact of food aid on markets and understand the dependency on markets of vulnerable households.

Letting markets help recovery after the 2005 Pakistani earthquake: In October 2005 a powerful earthquake hit Pakistan-administrated Kashmir and the North West Frontier Province of Pakistan killing more than 73,000 people. After an Emergency Food Security Assessment was carried out, WFP decided to conduct a market assessment and trader survey in the most food insecure areas. The application of “real time” market analysis proved useful in the context of this sudden-onset emergency because some markets had been destroyed and others had already recovered. The survey helped refine the targeting and design of the PRRO, and concluded that food assistance in urban areas most likely would have hindered market recovery. Thus, WFP food aid distributions were retargeted to rural areas.

- SENAC will support the preparation of market profiles in countries where there is little market

information. SENAC has already conducted several market profiles for countries with recurrent crisis. Market profiles are a prerequisite for thorough food security analysis, programming and procurement decisions.

Next Steps

The following actions are planned to strengthen how WFP uses market analysis during ENAs and potentially to reduce a food crisis:

- Checklists of essential market information have been developed for EFSAs, CFSVAs and FSMS and will be field tested.

- Checklists for market profiles will be refined to include information on regional trade, market integration, infrastructure and the role markets play in providing credit and employment.

- “Market literacy” training for WFP and partner staff is being developed and a training schedule is ongoing for 2006 and 2007. Consideration will be given to mainstreaming the five SENAC Market Regional Assessment Officer positions in WFP’s 2008-2009 biennium budget.

- SENAC will continue working on a prototype market model for Zambia as an analytical tool for assessing food assistance requirements. The market model analyses the market response to a shock taking into account imports and commodity substitution, helps predict the potential price effects of an influx of food aid and estimates the “food gap” to be covered by external assistance. Using this model, a drought simulation showed that when estimates of private imports and commodity substitution (in this case cassava for maize) were incorporated into the analysis, the projected “food gap” in Zambia was reduced substantially, leading to lower food aid requirements. This prototype market model will be refined and adapted for use in other countries even if it is not applicable in all situations.

Conclusions: Market analysis adds value to ENAs in three major ways:

- Market analysis improves WFP’s ability to determine whether market mechanisms will be able to meet the basic consumption needs of poor households during or after a shock.

- Market analysis can help to identify appropriate response options, including non-food responses, when and where markets are functioning.

- When food aid is recommended, market analysis can predict the potential market risk.

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For a copy of the desk review or the Cairo workshop report, go to <http://www.wfp.org/ODAN>